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DEPARTMENT FOR EAP, EAP/CM
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SUBJECT: HONG KONG CHIEF EXECUTIVE DONALD TSANG LOOKS AHEAD

Classified By: CONSUL GENERAL JAMES CUNNINGHAM. REASONS: 1.4 (B,D).

¶1. (C) At lunch with me on October 3, Chief Executive (CE) Donald Tsang looked ahead to the Government's Policy Address on October 12, its upcoming proposals for political reform, and his visit to the U.S. at the end of October. With the policy and political reform issues out in the open, he hopes to discuss with the president and the secretary the importance of Hong Kong's role, both in this region and with respect to the international community's interaction with China, and Hong Kong's need for U.S. support.

¶2. (C) Tsang is tired, and says he hasn't had a day off in more than a year. His doctor has told him he needs to find more time to relax and to exercise. But he is clearly enjoying the political fray. He and his team have skillfully controlled the unfolding political debate over the past months. The popularity of his government is acknowledged both by the general public and by Beijing. As one of the major newspapers here put it several weeks ago, in many respects the political forces are dancing to Tsang's tune, and he is proud of his Government's success.

¶3. (C) He told me that his basic charge from Beijing is to show that his team can run Hong Kong as efficiently as did the British, and to solve problems before Beijing becomes involved. He credited Vice President Zeng Qinghong with giving strong support, adding that Zeng is very well informed about Hong Kong developments, down to the details. He added that President Hu and Premier Wen Jiabao are also knowledgeable about Hong Kong affairs, and that Beijing has been "supportive" when he asked. (Comment: the Zeng visit to Hong Kong, and the invitation to all Legislative Council members to visit the mainland, were key elements in the Tsang strategy for improving the prospects for acceptance of the Government's political reform package. End comment.)

¶4. (C) Tsang confirmed that the political reform package will be unveiled after the Policy Address. In the Policy Address, Tsang will raise many of the social and governance issues vital for Hong Kong's future. He will seek to broaden political debate beyond focus on universal suffrage, for which, he repeated, Hong Kong's immature political structure is not well prepared.

¶5. (C) I commended him on his skillful handling of the gradual emergence of the elements of the Government's political reform proposal. His opponents across the political spectrum are obviously feeling that they are being backed into the corner of having to accept elements they don't like. He said that Chief Secretary Raphael Hui, his right hand, is the master of that process. When I suggested that dropping the inclusion of appointed District Council members would ensure its acceptance, he agreed but said flatly there is no more flexibility from Beijing. He said Beijing has, from its point of view, been quite forthcoming by agreeing to inclusion of the directly elected district

representatives in both the Legislative Council and Election Committee. Exclusion of the appointed reps would "kill the deal."

16. (C) The proposal will be "take it or leave it." He is committed, he said, to get the best result possible to advance democracy, and "no one could do any better." He personally could support direct elections in 2007/2008. But that would have created huge problems which aren't even being discussed, such as Hong Kong's extremely narrow tax base. (Comment: only 1.5 percent of the population account for 60 percent of all salary tax revenue, and only 18 percent of the population pay any tax on salary. End comment.) This is an unstable basis for democracy, he argued. The great fear in Hong Kong is not taxation without representation, but "representation without taxation" in which the non-taxpaying majority would dictate to the taxpayers. He concluded that a proposal which is disliked by both the democrats and the pro-business, pro-Beijing elements probably strikes the right balance.

17. (C) Tsang hopes he can use his visit to the U.S. at the end of October to discuss with the President and the Secretary the unique and vital role Hong Kong has to play in this region's future, and with China itself. He is committed to the preservation of Hong Kong's distinct character, without which "we might as well be in Shanghai." Continued U.S. support will be crucial, he said. In a speech to the Washington Asia Society he will tackle "head on" the issue of democracy, and in New York he will meet with the business community and "The New York Times." He would be willing to meet with anyone we suggest on the Hill.

18. (C) I told him that in some respects Hong Kong is a barometer of China's intentions toward the international community and its ability to abide by its commitments. Thus, how Hong Kong acts, and how China acts toward Hong Kong, are important political and economic indicators. If things start to go wrong in that dynamic, the reaction will be quick and negative. He agreed, adding that Hong Kong ways and standards must be preserved, or it will wither. Hong Kong's success, on the other hand, has much to offer the international community, and the rest of China as well.

CUNNINGHAM